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| **CC:** | |
| **Date:** | Mon, 7/7/2014 5:56:51 PM |
| **Subject:** | Daily Update |

Quote of the Day

"When the tune changes, so does the dance" – Unknown

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- The tune is potentially changing as the employment data materially exceeded expectations on Thursday. Although, a number of investors (and the weekend press) seem to be ignoring this new data point there were indications that some are considering increased rates and higher inflation. Weekend articles generally seemed "incredulous" on the performance of the economy (a lot of frustration and skepticism remains imbedded in investor psyches). I think we need to at least consider / upgrade the scenario that says rates may begin to rise sooner than expected (assuming the number was not a data anomaly). Also, on the back of this new information, Goldman moved up their forecast for rate hikes this weekend although JPMorgan lowered their US GDP forecast. The Dow closed at a record 17,068.26 and the VIX is again threatening all-time lows, closing at 10.32 on Thursday (Records: low 8.89 / high 89.53). Today will be slow as investors return from a three day holiday weekend. In the interim, focus will shift to earnings. Stocks are weaker heading into the morning open. Eminis: -5. 10yr: 2.63%

- JPMorgan this morning:

  *"Rallies aren't linear and there will be periods of consolidation along the way (positioning/sentiment are important considerations for predicting day-to-day and week-to-week moves and on that front stocks in the very near-term may be extended). But "boring" will likely remain the best way to describe this tape and if that continues the present price action trend (for the time being) prob. won't change."*

  ***"Why aren't US Treasury yields higher?** With stocks marching higher many are wondering why bonds still trade relatively well (10yr yields are well below their Dec highs). A few factors are at play. To start, the price action in Europe (driven by the ECB's recent policy steps and lower inflation forecasts) continues to act as a weight on US yields (the spread between Bunds and Treasuries will have a hard getting much wider from here). Meanwhile, US inflation measures, while firmer, still aren't enough to materially shift the Fed's policy stance (and regardless the Fed has intimated having a higher near-term tolerance for inflation than was the case before). Finally, any Fed tightening process will be a slow and gradual one that winds up leaving the long-term Fed Funds rate below pre-crisis levels."*

- Chart of the Day:

  2yr US Treasury (yld)

- Data: Nothing until Wednesday when the Fed minutes are released

- Earnings: Start tomorrow

- Credit: A snoozer on Thursday. Citi research this morning is highlighting that June's leveraged loan index performance was being driven by a few distressed / stressed names including TXU, Toys and Gymboree (*ref: Ira Ginsburg*). Reminder a handful of names (or one) can make (or ruin) your day. June demonstrates how the market continues transform from beta investing to idiosyncratic alpha investing. Please continue to bring ideas…

- Other:

  - These Three Charts Show Inflation Is Finally Right Around The Corner http://www.businessinsider.com/inflation-is-coming-2014-7#ixzz36mmArLOR
  - Obama-who? http://online.wsj.com/articles/hillary-clinton-begins-to-move-away-from-obama-ahead-of-2016-1404691988?mod=WSJ_hp_RightTopStories
  - Gloves slipping off… http://nypost.com/2014/07/06/this-means-warren-obama-backs-challenger-to-hillary/
  - Lame duck lock? http://www.politico.com/story/2014/07/2014-senate-elections-republicans-108584.html#ixzz36kNfRDpi
  - The pot calling the kettle noir? http://www.nytimes.com/2014/07/07/opinion/paul-krugman-conservative-delusions-about-inflation.html?partner=rss&emc=rss&_r=0

    - What If America Had Lost the Revolutionary War? http://www.theatlantic.com/international/archive/2014/07/what-if-america-had-lost-the-revolutionary-war/373964/

- HY: 109 1/32 (-1/8)
- IG: 55 9/16 (+9/16)
- CSLLI: 0.07% mtd / 2.84% ytd

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